SUPERMARKET BUSINESS

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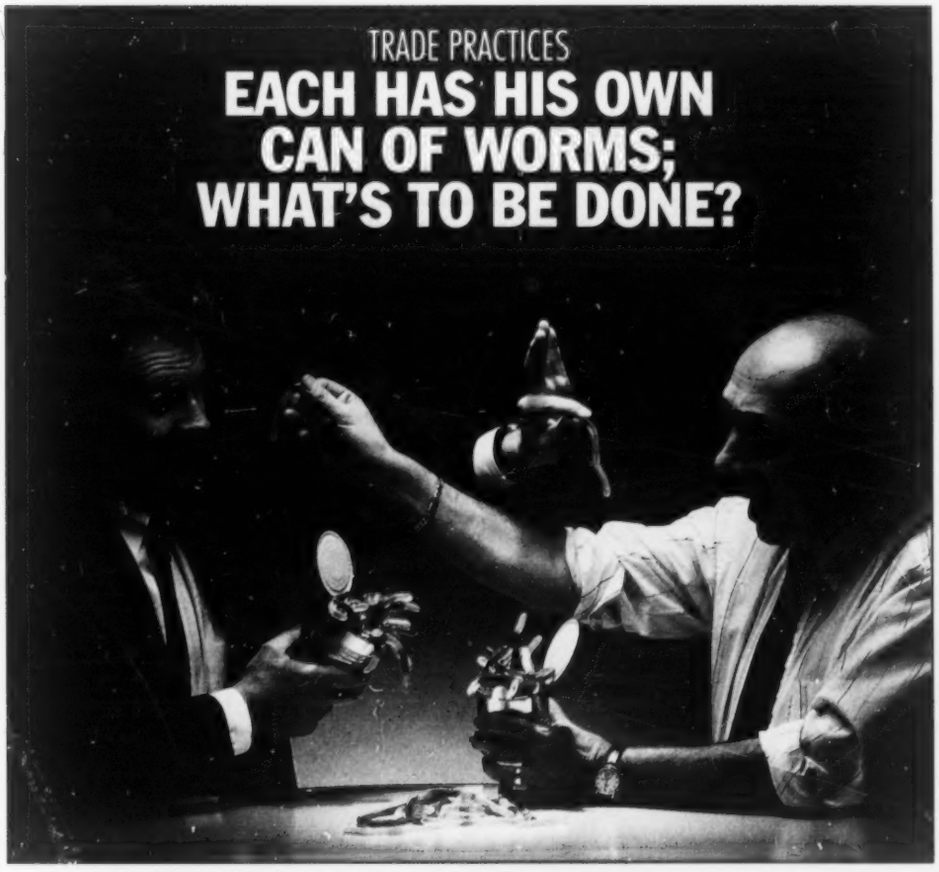

TRADE PRACTICES

EACH HAS HIS OWN CAN OF WORMS; WHAT'S TO BE DONE?

What's That She's Carting Around?

New Supreme Court: A Foodservice Department You Can Send Out For

At Seessel's, They've Cooked Up Quite A Restaurant

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Who shall lead, and who shall follow? That's a key question being asked in the marketplace, now that everyone's can of worms is on the table and all are trying to deal with recession and deflation. To see how companies are coping we priced five key markets...and found that while there may be central buying, there's no such thing as central pricing.

SUPREME COURT GOES ON TRIAL MIKE DUFF **53**

Talk about co-opting the (restaurant) competition! Here, for the first time under one supermarket roof, are Bennigan's, Chi-Chi's, Godfather's Pizza, Ricky Shaw's Oriental Express, 5th & Grand Sandwich Stand and Heartland Winger's Fried Chicken.

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Today, to showcase your store's Number One draw, a wonderful variety of innovative fixtures and equipment can be had...or created especially for you by a custom manufacturer. Here's a look at some of the latest offerings.

RESETTING AMERICA'S TABLE: AN OVERVIEW OF A CHANGING U.S. CONSUMER AND FOOD MARKETPLACE MOLLY O'NEIL **87**

Some eat to live, others live to eat, and there's a multitude in between. The "American way of eating" has changed dramatically over the years, and this article examines how and why.

AT CERRETANI'S, THEY MAKE NEW FRIENDS...BUT KEEP THE OLD MIKE DUFF **99**

Senior citizens found this store's remodel and expansion a bit too much to handle...until company management made a very special effort to meet their very special needs.

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These are troubled times in retailing, and the problems will not disappear with a sustained economic upturn. What's needed is for us to put our own house in order, this observer argues.

ONLY THE RESULT WAS BUNYANESQUE FRANK HAMMEL **181**

The president of independent operator Paul Bunyan may not clear the forest with one mighty swing. But he's done something almost as impressive: Chop 50 percent more volume out of his Erie, PA marketplace.

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COOKING UP A COMPETITIVE EDGE **119**

If you're truly committed to foodservice quality, what you need is all-scratch cooking by a central kitchen. That's the conclusion reached by two innovative operators whose store-level approaches differ...but who have many philosophies in common.

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Supermarket HBA sales reached a new high of $11.6 billion last year, a 5.3 percent increase over 1990. Considering the state of the economy and the all-classes-of-trade competition, that wasn't bad. For the details, see inside.

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A new "basic set" of nonfoods operations is the goal of this 30-store Northeast chain, as it adds space and tweaks the mix to build volume in the high-profit GM/HBA category.

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IS THIS HOW WAR BEGINS?

By Ken Partch, Editor-In-Chief

March 27, 1992

Dear Ken:

Your article this month [March] about the "Return of the Regular Price" prompted me to finally write to you about the problem.

I am a recently retired grocer of 66 years, who has been in our Great Food Industry every minute of my life.

The practice of "Hi-Lo" pricing started with the beverage industry about 1974, during Pres. Nixon's price freeze, and then with a run-up in soda prices due to high sugar prices. Diet soda prices went up too!

The "list" or "regular" prices were never lowered after that. We got the deal and special offers—leading to the nightmare our industry is now locked into. At one point we were forced to buy only deal merchandise in order to be competitive. Beverage dealers told me that 90 percent of their movement was at deal prices.

When Cub Foods and other mass "merchandisers" entered our market we heard that they bought only on deal on most items. We who tried to have all brands and sizes were made to look like bandits in between deal offerings from our co-op.

Many consumers I have talked with lately tell me they buy in quantity on specials, and wait for the next "sale" to stock up again. Many are no longer loyal to the name brands. They are buying more house brands and unknown brands at Aldi's, and find them OK.

I spoke at length about the growing problem in 1983 at the N.G.A. Convention in San Francisco. Many major food manufacturing reps told me I was right on target. However, they felt locked into the practice.

The enclosed letter to USA Today brought several calls from around the country.

Sincerely,

Anthony A. Dinolfo
Chicago, Ill.

"It is embarrassing to be a grocer when a can of tuna is $1.19 at the everyday price, but 49 cents on 'sale' every other week."
—Independent operator

In his letter to USA Today published on November 13, 1991, Tony Dinolfo criticized the widespread practice in all forms of retailing—from cars to clothing—of artificially high "list" or "regular" prices and the deep discounts, rebates, coupons and two for one "sales." About groceries he said:

"...It even became embarrassing to be a grocer when a can of tuna was $1.19 at everyday price, but then 49 cents on 'sale' every other week."

There are signs that these roller coaster peaks and valleys in pricing and in distribution of product may be changing. And the reason is probably that they have to change. Hard times have a way of forcing reality onto everything. Consumers have been cutting back in total spending and in how they spend. For brand marketers, and supermarkets, that's a dangerous situation.

Most of the major grocery manufacturers cut their consumer advertising programs severely in 1991, and increased the amount spent on trade and consumer promotions. In fact, trade promotion dollars now amount to nearly 50 percent of total marketing budgets, according to the latest Donnelley Marketing Survey of Promotional Practices. Consumer promotions bring total promotion spending to 75 percent; media advertising now accounts for a mere 25 percent of the marketing budget. Some, like Tony O'Reilly of Heinz, think this has been a good move. But Procter & Gamble says that it will increase consumer advertising in 1992, as part of its new approach to the marketplace.

Some of the giant acquisitions in the grocery industry of both retailers and manufacturers are turning out to be somewhat less than wonderful in their return on investment. Raising prices in hard times is not as easy as it once was. The cost of those peaks and valleys in inventory is perhaps not as negligible as it once was.

Nevertheless, gross margins in some markets continue to head for the stratosphere. Not many years ago, the average gross margin before interest, taxes and dividends was about 22 to 23 percent. Interest rates on debts were a fraction of a percent. In well-run "family-owned" operations, they still are. But others are running grosses in the upper twenties, with interest rates that are double or triple net profits.

People ask: How did those smart investment bankers, who discovered the attractive cash flows in the supermarket business, also know that grosses in the industry could be raised to cover the enormous debt assumed

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TRADE PRACTICES:
HARD TIMES BRING CHAOS TO THE STRUGGLE FOR POWER

BY KEN PARTCH

After years and years of inflation, with ongoing concentration among distributors and manufacturers, basic questions about the marketplace are being asked: Who shall lead, and who shall follow? Brand marketers want control of their brands. Supermarket operators say: We've got control, don't tell us how to run our business.

What's actually happening in the marketplace? Are price cuts being passed along? Are deals being passed along? How can operators deal with deflation?

To gain an idea of what is happening in the marketplace, SUPERMARKET BUSINESS conducted price comparisons in five markets. There are some notable surprises in terms of new price leaders, and old leaders who no longer lead. Prices of specific products vary wildly. Some operators can be both the price leader and the price follower in the same market. We may have some multi-division companies that are buying centrally, but they are certainly not pricing accordingly.

Can supermarkets deal with declining prices?

Traditionally, the supermarket industry has been murderously price competitive. But also, traditionally, depending upon the market, it has gone through periods where it was only seemingly tough price-competitive.

This price competitiveness game was often played by observable but unspoken rules. One of the rules was that there should be periods of time when established players could breath a little easier, and all make some money. From time to time, if you listened carefully, one of the market leaders would actually make an announcement along these lines in a kind of plea for "sensibleness," or some such word.

There's quite a lot of new jockeying for price position in some markets. The price leader you knew may no longer be the leader.

If you were listening carefully at a recent security analysts meeting in New York, you might have heard one CEO remark how retailers were getting back to more "realistic" pricing "after vicious price competition during much of 1991."

In the decade of the eighties, for the first time in many years, operators were trying out new formats, sometimes far from their traditional market areas. Sometimes, as with Cub, Super Valu did succeed in establishing new bridgeheads and new markets, or increased share in traditional markets. Others, such as Grand Union of New Jersey with its Basics, shook up far-away markets in Florida and Virginia, only to crash and burn after awakening tough competitors such as Giant Food, and Wakefern and Pathmark in its home market.

Today, there are few rules to the game. Mergers and acquisitions have made everyone a potential competitor of everyone else. Sometimes it is your former competitor who is suddenly in a position to examine your black books, or even your balance sheets. Your closest market competitor is suddenly owned and operated by a company from the other side of the continent, or of the world. No more do we have market leaders who can hold up the umbrella of gross margins (so to speak) for all to operate comfortably underneath.

And so it is beginning to happen in the traditional buyer-seller relationship. For many years, perhaps too many, most operating problems of retailers and wholesalers were obscured by continuous inflation. Price increases became a way of life. Price increases could cover a multitude of problems for both manufacturers and distributors. The industry became geared to price increases. Consumers became inured to price increases.

If there was no actual inflation, the industry discovered it could create its own through artificially created "peaks" and "valleys" through heavy promotions, unencumbered deals, unlimited deal buys, diverting, forward buying, and end-of-promotion buy-ins. These artificial windfalls altered the basic economics of supermarket operation, and all of marketing.

Suddenly—hard times. Many had warned that the lavish spending could not last forever; that manufacturers would pull back; that the lavish promotion money would dry up; that the gravy train would come to an end. But few thought that it would all end—cold turkey. Of course it hasn't all ended, and there are still some easy-riders in the marketplace.

But those giant-sized acquisitions of well-known brands are not proving to be the easy-money makers many expected. With a deep and prolonged recession, consumers are cutting back on everything. Price increases are not so easily passed along. During 1991, many brand manufacturers cut back severely on brand advertising, hoping to make it through consumer promotion and sales promotion.

But that, too, can prove to be a will-o'-the-wisp. There is no cheap or easy way to build long-range share of market. Other brand marketers intend to increase consumer advertising substantially in 1992. Some would like to cut prices and deals, and return to some form of EDLP.

The battle is joined.

That's the supermarket climate, then. A disenchanted manufacturer says: "I want to market my products my way. If I want to cut the price and cut the promotions, don't tell me I can't." A disgruntled retailer says: "You got me into this, and you can't just shut off the faucet—not now. It's my store and my real estate." The consumer says: "If you don't give me what I want, when I want it, I'll go to the club, or to any alternative outlet. And I'll buy whatever is on sale, or has the biggest discount, or the largest coupon offer." The battle is joined.

But what is really happening out there? Is competition really as tough as people say it is? Haven't all the years of inflation and price increases created a pretty "loosey-goosey" situation? Isn't there an awful lot of slack in the system? After all, a lot of companies seem to be paying down those enormous debts from those LBOS, and still paying dividends. What's the real story?

To get some idea of the real story, SUPERMARKET BUSINESS decided to sample the air out there. We decided to run price checks in five different markets across the country. It's not a scientific sample, and we don't claim it to be. But it is a price list that we have used for a number of years, and we've never missed in finding the price leader in a market; nor who is no longer the price leader and who makes no attempt at being price conscious.

Sometimes the price leader is just whom you expected it to be, and sometimes it's not. One of the biggest surprises is that some markets are as low-priced as they are, and that some markets are not as low-priced as you might have expected.

But remember, this is a marketing climate, today, where distributors are saying to manufacturers, "If you have a deal running in Texas or Florida, and my stores are in New Jersey, I still want to know about it, and I had better know about it."

Let's crank up our imaginative corporate jet, and head out. Let's start in New England and work our way South and West. In West Springfield, Mass., where the recession has hit hard, we were somewhat surprised to learn that Finast's Edwards was once again the price leader, and a distinct price leader. There was a time when Stop & Shop would not have allowed that to happen. And guess who is next? Waldbaum's Food Mart, which is owned by A&P, with A&P also in the market, but with higher prices.

And how are the prices in general? They're pretty good. West Springfield turned out to be the second lowest-priced market studied for identical products in all markets.

Payroll costs and rent do not explain lower prices in West Springfield. A&P, Waldbaum's Food Mart and Stop & Shop are union organized, while Big Y and Edwards are not. Lack of a union contract does not necessarily mean lower operating costs, but it can mean advantages in work practices and in ratios of full-time workers to part-timers, and fewer work restrictions.

A full-time cashier or clerk, according to the Springfield local of the UFCW, earns $12.05 to $16.25 per hour. Mean rent for existing stores in New England, according to Food Marketing Institute, is $6.82 per sq. ft. For new stores, it is $13.17. Median payroll costs, according to FMI, are $8.74 per labor hour.

The shift in market power changed the rules of the game.

Edwards (Finast) is the price leader in West Springfield with an 11 percent spread between it and the highest-priced retailer, A&P, for 42 like items. Times have changed for Stop & Shop, who once took on all comers in its markets, including the once high-riding super warehouse stores. Stop & Shop, which recently went public once again, is now priced right in the middle. Apparently, the company is confident that it will keep its market share without being the price leader.

Moving West over to New York State and South to Rockland County, near New York City, we come to the second most expensive market for like items. Here, the labor cost is relatively high, at $15 per labor hour for a journeyman clerk, and a rental cost that can run to $15 per sq. ft., and more, according to local estimates. There is a two-tier hourly labor rate in Rockland County.

There were a couple of surprises in the Rockland County market. Grand Union turned out to be the price leader for 48 like items, while the traditionally low-priced Pathmark was second highest priced, just below the A&P Future Store. The LBO must be taking its toll on the Pathmark image. Just above Grand Union was ShopRite, but not by a significant amount.

Looking at prices of some specific items, we find some very

West Springfield, Massachusetts

COMPARATIVE PRICE LIST MARCH 5, 1992

	Waldbaum's Food Mart	Edwards (Finast)	A & P	Big Y	Stop & Shop
One Head Iceberg Lettuce	$ .99	$ .99	$ .89	$ .59	$ .99
Bananas (Branded - 1 lb.)	.59	.59	.59	.69	.33
Kellogg's Corn Flakes (18 oz.)	1.79	1.88*	1.99	1.99	1.85
Rice Krispies (13 oz.)	2.29	2.29	2.29	2.29	2.29
Pepperidge Farm White (1 lb.)	1.69	1.69	1.69	1.69	1.69
Sunbeam White Bread (1 lb. 6 oz.)	1.09	1.09	1.09	1.09	1.09
Thomas English Muffins (6 pack)	1.69	1.69	1.69	1.69	1.69
Kahn's Jumbo Franks (1 lb.)	2.19	2.69	2.39	2.79	2.99
Oscar Mayer Sliced Bologna (8 oz.)	1.59	1.59	1.69	1.59	1.49
Oscar Mayer Sliced Bacon (1 lb.)	1.49	2.69	2.54*	2.99	2.99
Local Brand Fryer Breasts (price per lb.)	2.55	2.09	2.60*	2.79	2.99
Chicken of the Sea Chunk Light Tuna (6 1/2 oz.)	.79	.44	.83	.79	.79
Mueller's Spaghetti (16 oz.)	.59	.59	.79	.99	.59
Kraft American Singles (16 oz.)	2.99	1.99	3.29	3.29	3.29
Whole Milk (Private Label, 1 gal.)	2.49	2.35	2.39	2.39	2.39
Parkay Margarine (Sticks, 1 lb.)	.75	.40	.89	.69	.75
Butter (Private Label, 1 lb.)	1.50	1.50	1.79	1.69	1.49
Land o' Lakes Butter (light salt, 1 lb.)	1.79	1.79	1.99	1.79	1.79
Eggs (Private Label, Lg., White, 1 dozen)	.79	.88	.99	.99	1.25
Minute Maid Orange Juice (frozen, 12 oz.)	1.49	.99	1.75	1.79	1.49
Stouffer's Lean Cuisine Glazed Chicken	2.79	2.79	3.19	2.99	2.94*
Birds Eye Frozen Peas (10 oz.)	.84	.67	.89	.89	.89
Campbell's Tomato Soup (10 3/4 oz.)	.45	.40	.45	.49	.40
Skippy Peanut Butter (Creamy 18 oz.)	2.39	2.29	2.69	2.39	1.79
Welch's Grape Jelly (32 oz.)	1.49	1.49	1.99	1.85	1.89
Hellmann's Mayonnaise (1 qt.)	2.19	2.19	2.39	2.19	2.29
Heinz Ketchup (14 oz.)	.85	.85	.85	.95	.85
Tide Ultra Powder (42 oz.)	4.29	4.29	4.59	4.34	4.29
Bounty Towels (Lg. roll, 60 sq. ft.)	.79	.85	.89	.83	.85
Saran Wrap (50 sq. ft.)	1.55	1.59	1.59	1.69	1.59
Stayfree Maxi Pads (24 ct.)	2.99	2.99	2.99*	2.99	2.99
Fritos Corn Chips (11 1/2 oz.)	1.99	1.99	1.99	1.99	1.99
Crest Toothpaste (Gel, 6.4 oz. tube)	2.49	2.34	2.49	2.49	2.49
Nabisco Oreos (20 oz.)	2.50	2.50	2.50	2.49	1.99
Pepsi (2 liter)	1.39	1.29	1.19	.97	.99
Coke (2 liter)	1.39	.98	1.19	1.59	.99
Diet Pepsi (2 liter)	1.39	1.29	1.19	.97	.99
Diet Coke (2 liter)	1.39	.98	1.19	1.59	.99
Maxwell House Coffee (reg. grind, 13 oz.)	2.59	2.39	2.79	2.59	2.59
Lipton Tea Bags (100 ct.)	2.49	1.99	2.75	2.49	2.59
Domino Sugar (Reg. granulated, 5 lb.)	1.99	2.09	2.19	2.09	2.09*
Ground Chuck (USDA choice, 1 lb.)	1.99	1.99	2.19	1.99	1.89
TOTAL (42 items)	**$73.35**	**$70.44**	**$78.33**	**$74.86**	**$74.58**

* Item not available. Price based on average of other stores in area.

Suddenly, we have hard times. Brand marketers want to get back to consumer advertising.

strange anomalies. While Kraft American Singles (16-oz.) are priced as low as $1.99 at Edwards in Springfield. in Rockland they sell(?) at ShopRite and A&P at $4.78 and $4.79, respectively. On the other hand, Tide (Ultra, 42 oz.) is priced at $4.79 at Pathmark and A&P, and at $3.29 at Grand Union. Not many observers are aware that Grand Union is playing such hard ball, while it searches for a new owner.

Continuing our market tour, and dipping down to North Carolina, we drop into the

Rockland County, New York

COMPARATIVE PRICE LIST FEBRUARY 15, 1992

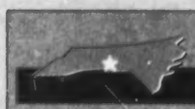
	Pathmark	Grand Union	A&P Future Store	Shoprite	Waldbaum's
One Head Iceberg Lettuce	$ .99	$ .99	$ .99	$ .59	$ .99
Bananas (Branded - 1 lb.)	.89	.59	.89	.25	.59
Oranges (12 ct)	2.79	1.99	2.69	2.49	2.99
Kellogg's Corn Flakes (12 oz.)	1.59	1.59	1.89	1.59	1.69
Rice Krispies (10 oz.)	1.99	1.99	1.99	1.99	2.09
Pepperidge Farm White (1 lb.)	1.69	1.69	1.69	1.69	1.69
Wonder White Bread (1 lb. 4 oz.)	.99	.99	.99	.99	.99
Thomas English Muffins (5 pack)	1.69	1.69	1.89	1.69	1.69
Entenmann's Louisiana Crunch Cake	3.59	3.44*	3.29	3.59	3.29
Oscar Mayer Jumbo Franks (1 lb.)	3.19	3.19	3.29	2.89	3.14*
Oscar Mayer Sliced Bologna (8 oz.)	1.79	1.74*	1.69	1.69	1.79
Oscar Mayer Sliced Bacon (1 lb.)	3.29	3.49	3.19	2.99	1.89
Local Brand Fryer Breasts (price per lb.)	1.49	1.69	1.89	1.69	.99
Chicken of the Sea Chunk Light Tuna (6 1/2 oz.)	.79	.50	.69	.69	.99
Mueller's Spaghetti (16 oz.)	.89	.60	.74*	.79	.79
Ragu Spaghetti Sauce (14 oz.)	1.29	1.29	1.29	1.29	1.29
Prego Spaghetti Sauce w/Mushrooms (14 oz.)	1.32*	1.29	1.29	1.29	1.39
Kraft American Singles (16 oz.)	3.89	3.89	4.79	4.78	4.39
Whole Milk (Private Label, 1 gal.)	2.29	2.59	2.52	2.55	2.14
Parkay Margarine (Sticks, 1 lb.)	.59	.89	.89	.89	.89
Butter (Private Label, 1 lb.)	1.89	1.95	1.95	1.89	2.05
Land o' Lakes Butter (light salt, 1 lb.)	2.39	2.29	2.39	2.29	2.49
Eggs (Private Label, Lg., White, 1 dozen)	1.59	1.39	1.29	.99	1.29
Minute Maid Orange Juice (frozen, 12 oz.)	2.29	1.50	2.29	2.29	2.39
Stouffer's Lean Cuisine Glazed Chicken	3.19	2.50	3.19	3.19	3.19
Birds Eye Frozen Peas (10 oz.)	.84*	.89	.89	.89	.69
Ellio's Cheese Pizza (frozen, 1 lb.)	2.99	2.99	2.84*	2.99	2.39
Campbell's Tomato Soup (10 3/4 oz.)	.39	.37	.37	.37	.49
Skippy Peanut Butter (Creamy 18 oz.)	2.59	2.59	2.59	2.59	2.69
Welch's Grape Jelly (32 oz.)	2.19	2.99	1.99	1.99	2.29
Hellmann's Mayonnaise (1 qt.)	2.39	2.39	2.39	2.35	2.49
Heinz Ketchup (14 oz.)	.89	.75	.75	.75	1.09
Tide Ultra Powder (42 oz.)	4.79	3.29	4.79	4.29	4.79
Bounty Towels (Lg. roll, 60 sq. ft.)	.89	.99	.99	.99	1.09
Saran Wrap (50 sq. ft.)	1.59	1.59	1.62*	1.59	1.69
Stayfree Maxi Pads (24 ct.)	2.99	2.99	2.99	2.99	2.99
Doritos Nacho Cheese Corn Chips (15 oz.)	2.49	2.69	2.69	2.64*	2.69
Crest Toothpaste (Gel, 6.4 oz. tube)	2.29	1.99	2.29	2.29	2.29
Nabisco Oreos (20 oz.)	3.19	3.19	3.19	2.69	3.19
Pepsi (2 liter)	1.39	1.49	1.69	1.49	1.29
Coke (2 liter)	.99	1.49	1.49	1.39	1.39
Diet Pepsi (2 liter)	1.39	1.49	1.69	1.49	1.29
Diet Coke (2 liter)	.99	1.49	1.49	1.39	1.39
Maxwell House Coffee (reg. grind, 13 oz.)	1.99	1.99	2.29	1.99	1.99
Lipton Tea Bags (100 ct.)	2.79	1.99	2.49	1.99	2.99
Sugar (Reg. granulated, 5 lb.)	1.99	1.97*	1.89	1.99	1.09
Ground Chuck (USDA choice, 1 lb.)	1.89	1.98	2.39	2.09	1.69
Barbasol Shave Cream (11 oz.)	1.39	1.29	.88	1.09	1.29
TOTAL (48 Items)	$93.40	$90.84	$95.67	$91.88	$92.98

* Each not available. Price based on average of other stores studied.

The guy you thought was a tough competitor now looks like a pussycat. The LBO has him all tied in knots, and he can't move.

Charlotte market. Here, we can have a look at another A&P division. We have Bi-Lo, another Ahold member (along with Finast), and the formidable Food Lion. Food Lion is the leader in a walk, with Bi-Lo and Winn-Dixie all but tied for second place.

While labor costs in Charlotte are said to run between $6.50 and $7.00 per hour for a cashier, rental costs average between $5.80 for new stores, according to FMI, and $4.66 for existing stores, depending upon store size and location. But since almost nobody



Charlotte, North Carolina

COMPARATIVE PRICE LIST FEBRUARY 15, 1992

	Harris-Teeter	Food Lion	A&P Sav-A-Center	Bi-Lo	Winn-Dixie
One Head Iceberg Lettuce	$ .89	$ .29	$ .99	$ .99	$ .89
Bananas (Branded - 1 lb.)	.59	.59	.59	.59	.59
Kellogg's Corn Flakes (18 oz.)	1.50	1.69	1.79	1.79	1.69
Rice Krispies (10 oz.)	2.25	2.25	2.25	3.14	2.25
Sunbeam White Bread (1 lb. 4 oz.)	1.29	1.14	1.19	1.05	1.15
Thomas English Muffins (6 pack)	1.69	1.89	1.69	1.69	1.69
Oscar Mayer Sliced Bologna (8 oz.)	2.29	1.59	1.79	1.65	1.59
Oscar Mayer Sliced Bacon (1 lb.)	2.99	2.59	2.79	2.79	2.99
Local Brand Fryer Breasts (price per lb.)	2.69	1.89	2.29	1.99	2.29
Jimmy Dean Sausage (12 oz.)	1.99	1.99	2.79	2.29	2.58
Chicken of the Sea Chunk Light Tuna (6 1/2 oz.)	.59	.59	.59	.59	.59
Mueller's Spaghetti (16 oz.)	.69	.69	.69	.69	.59
Ragu Spaghetti Sauce (14 oz.)	1.17	1.17	1.17	1.19	1.17
Kraft American Singles (16 oz.)	2.89	2.89	2.89	2.77	2.49
Whole Milk (Private Label, 1 gal.)	2.39	2.39	2.89	2.39	2.39
Parkay Margarine (Sticks, 1 lb.)	.55	.50	.55	.55	.55
Butter (Private Label, 1 lb.)	1.16	1.35	1.35	1.35	1.35
Land o' Lakes Butter (light salt, 1 lb.)	1.50	1.69	1.69	1.79	1.69
Eggs (Private Label, Lg., White, 1 dozen)	.87	.89	.79	.85	.87
Minute Maid Orange Juice (frozen, 12 oz.)	1.29	1.29	1.29	1.29	1.79
Green Giant Frozen Peas (16 oz.)	1.89	.99	1.79	1.69	1.59*
Stouffer's Lean Cuisine Glazed Chicken	2.29	2.29	2.69	1.99	2.29
Green Giant Green Beans (Canned, 14 1/2 oz.)	.50	.50	.43	.50	.50
Birds Eye Frozen Peas (10 oz.)	1.29	.99	.85	.99	.99
Jeno's Pepperoni Pizza (frozen, 7.4 oz.)	1.02*	.99	.99	.99	1.09
Campbell's Tomato Soup (10 3/4 oz.)	.39	.39	.39	.39	.39
Peter Pan Peanut Butter (Creamy 18 oz.)	1.89*	1.89	1.89	1.89	1.82
Welch's Grape Jelly (32 oz.)	1.39	1.39	1.39	1.39	1.29
Hellmann's Mayonnaise (1 qt.)	2.29	2.29	2.29	2.29	2.29
Heinz Ketchup (14 oz.)	.96	.96	.96	.96	.96
Tide Ultra Powder (42 oz.)	2.99	2.99	2.99	2.99	2.98
Bounty Towels (Lg. roll, 60 sq. ft.)	.79	.79	.79	.79	.79
Saran Wrap (50 sq. ft.)	1.39	1.39	1.49	1.39	1.42*
Stayfree Maxi Pads (24 ct.)	2.69	2.79	2.76*	2.79	2.78
Doritos Nacho Cheese Corn Chips (9.5 oz.)	1.99	1.99	1.99	1.89	1.89
Crest Toothpaste (Gel, 6.4 oz. tube)	1.99	1.99	1.99	1.99	1.99
Nabisco Oreos (20 oz.)	3.09	3.03	3.09	2.99	2.99
Pepsi (2 liter)	1.09	1.29	.99	.99	1.29
Coke (2 liter)	1.39	1.29	1.39	1.29	1.29
Diet Pepsi (2 liter)	1.09	1.29	.99	.99	1.29
Diet Coke (2 liter)	1.39	1.29	1.39	1.29	1.29
Maxwell House Coffee (reg. grind, 13 oz.)	1.89	1.89	1.89	1.89	1.89
Lipton Tea Bags (100 ct.)	2.89	2.89	2.89	2.89	2.89
Sugar (Reg. granulated, 5 lb.)	1.99	1.99	1.99	1.99	1.99
Ground Chuck (USDA choice, 1 lb.)	2.09	2.29	2.19	2.29	1.78
Barbasol Shave Cream (11 oz.)	1.19	1.19	.79	1.19	1.19
TOTAL (46 items)	**$75.42**	**$72.42**	**$74.44**	**$74.15**	**$74.14**

* Item not available. Price based on average of other stores in area.

Consumers complain that they don't know the regular price of anything.

Detroit, Michigan

COMPARATIVE PRICE LIST FEBRUARY 15, 1992

	Meijer	Farmer Jack	A & P	Kroger
One Head Iceberg Lettuce	$.79	$.99	$.29	$.99
Bananas (Branded - 1 lb.)	.49	.49	.49	.49
Oranges (4 lb.)	1.99	1.77	1.99	1.92
Kellogg's Corn Flakes (18 oz.)	1.58	2.05	2.05	1.99
Rice Krispies (13 oz.)	2.39	2.39	2.39	2.33
Pepperidge Farm White (1 lb.)	1.99	1.99	1.99	1.99
Koeplingers White Bread (1 lb. 4 oz.)	1.39	1.39	1.39	1.39
Thomas English Muffins (6 pack)	1.69	1.69	1.69	1.69
Entenmann's Louisiana Crunch Cake	3.59*	3.59	3.59	3.59
Ball Park Jumbo Franks (1 lb.)	2.59	2.39	2.39	2.49
Oscar Mayer Sliced Bologna (12 oz.)	1.99	1.89	2.49	2.29
Oscar Mayer Sliced Bacon (1 lb.)	2.99	2.99	2.99	2.99
Local Brand Fryer Breasts (price per lb.)	1.99	1.99	2.99	2.39
Jimmy Dean Sausage (12 oz.)	2.69	2.69	2.59	2.79
Chicken of the Sea Chunk Light Tuna (6 1/2 oz.)	.89	.89	.89	.75
Mueller's Spaghetti (16 oz.)	.98	.99	.89	.95
Ragu Mushroom Sauce (14 oz.)	1.29	1.28	1.28	1.28
Prego Spaghetti Sauce w/Mushrooms (30 oz.)	2.09	2.09	2.09	1.79
Kraft American Singles (16 oz.)	2.39	2.39	2.39	2.19
Whole Milk (Private Label, 1 gal.)	2.39	2.39	2.39	2.90
Parkay Margarine (Sticks, 1 lb.)	.79	.59	.59	.89
Butter (Private Label, 1 lb.)	1.88	1.79	1.69	1.69
Land o' Lakes Butter (light salt, 1 lb.)	1.99	2.09	2.09	1.99
Eggs (Private Label, Lg., White, 1 dozen)	.73	.85	.83	.99
Minute Maid Orange Juice (frozen, 12 oz.)	1.49	1.39	1.39	1.79
Green Giant Frozen Peas (16 oz.)	1.28	1.28	1.28	1.19
Stouffer's Lean Cuisine Glazed Chicken	2.79	2.79	2.50	2.79
Green Giant Canned Green Beans (14.5 oz.)	.67	.59	.59	.65
Birds Eye Frozen Peas (10 oz.)	1.37	1.27	1.49	1.39
Jeno's Cheese Pizza (frozen, 7.6 oz.)	1.39	1.39	1.39	1.29
Campbell's Tomato Soup (10 3/4 oz.)	.45	.45	.45	.45
Skippy Peanut Butter (Creamy 18 oz.)	2.49	2.77	2.77	2.49
Welch's Grape Jelly (32 oz.)	1.77	1.77	1.77	1.99
Hellmann's Mayonnaise (1 qt.)	2.39	2.43	2.39	2.29
Heinz Ketchup (14 oz.)	1.09	1.09	1.09	1.09
Tide Ultra Powder (42 oz.)	4.38	4.38	4.38	4.39
Bounty Towels (Lg. roll, 60 sq. ft.)	.99	.99	.99	.99
Saran Wrap (100 sq. ft.)	2.69	2.29	2.69	2.79
Stayfree Maxi Pads (24 ct.)	2.99	2.99	2.99	2.99
Doritos Nacho Cheese Corn Chips (15 oz.)	2.99	2.99	2.99	2.99
Crest Toothpaste (Gel, 6.4 oz. tube)	1.79	2.09	1.89	1.89
Nabisco Oreos (20 oz.)	3.19	3.19	3.19	3.09
Pepsi (2 liter)	1.49	1.19	1.49	1.39
Coke (2 liter)	1.49	1.49	1.19	1.39
Diet Pepsi (2 liter)	1.49	1.19	1.49	1.39
Diet Coke (2 liter)	1.49	1.49	1.19	1.39
Maxwell House Coffee (reg. grind, 13 oz.)	2.79	2.89	2.89	2.89
Lipton Tea Bags (100 ct.)	2.99	2.99	2.99	2.99
Domino Sugar (Reg. granulated, 5 lb.)	2.38	2.38	2.38	2.38
Ground Chuck (USDA choice, 1 lb.)	1.99	1.99	1.99	2.19
Barbasol Shave Cream (11 oz.)	.76	1.29	1.29	1.29
TOTAL (51 items)	**$96.54**	**$97.69**	**$96.58**	**$98.59**

* Item not available. Price based on average of other stores in area.

in the market is unionized, with the exception of a few Kroger stores, everybody is on the same footing. With a total cost for 46 items at Food Lion of $72.42, and others having to shoot at that, Charlotte is the place to buy your groceries. Tide Ultra, priced at $4.79 in Rockland, is priced at $2.99 by everybody in Charlotte.

Moving into the Great Lakes region, Detroit should prove interesting with two more A&P divisions, Kroger and the traditional price leader, Meijer.

The surprise here is that Meijer is not the price leader, although just pennies higher than A&P for 51 like items. A&P appears to be playing both ends. Its Farmer Jack chain, the former price-oriented operator, is now just under the top-priced Kroger, while A&P is right there with Meijer—a good strategy it would seem.

Another surprise here in Detroit is that, with all we have heard about plant closings and layoffs, Detroit is just below Rockland County for like item prices. Although mean rents per sq. ft. for existing

Brand marketers taught buyers to wait for the deals. Have we in turn taught consumers to buy only on deep price cuts and double coupons?

stores in the East North Central area average $4.09, and $6.76 for new stores, labor rates are just $10.87 in Detroit, with two-tier contracts, Detroit is hardly a cheap place to shop. Could it be that those labor contract guarantees in the auto industry keep prices up?

It is easy to see why Meijer is planning to open club formats in this market, since the market would seem ripe for such price competition. Better to have your own clubs in the market than someone else's.

The last market covered in this study is Anaheim, a suburb of Los Angeles. In Anaheim we compared prices for 48 like items in seven different stores. Anaheim was selected because of the traditional "high-low" operators, such as Vons and Ralphs, the traditional price leader, Lucky, and the new interlopers offering everyday low prices, Smith's Food and Drug, and Albertson's. The results were not really surprising, but confirming.

Smith's is far and away the price leader. Albertson's is next lowest, but a lot closer to Lucky and Vons. Vons Pavilion is the highest priced, which comes as no great surprise, except for the wide spread.

As we reboard our corporate jet for the journey back home, let's take stock of what we have learned—or may have learned. Pricing appears to be more chaotic than ever, except in Charlotte, where Food Lion continues to set the pace.

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Anaheim, California

COMPARATIVE PRICE LIST FEBRUARY 15, 1992

	Vons Pavilion	Vons	Hughes	Smith's	Ralphs	Albertson's	Lucky
One Head Iceberg Lettuce	$ .59	$ .59	$ .69	$ .49	$ .59	$ .79	$ .49
Bananas (Branded - 1 lb.)	.33	.55	.55	.49	.55	.49	.49
Kellogg's Corn Flakes (12 oz.)	1.49	1.86	1.86	1.78	1.89	1.50	1.81
Rice Krispies (13 oz.)	2.33*	2.33*	2.39	2.27	2.49	2.25	2.25
Store Brand White Bread (1 lb. 4 oz.)	4.59	1.09	1.10	1.10	.99	1.09	1.05
Thomas English Muffins (6 pack)	1.69	1.69	1.69	1.44	1.69	1.52	1.52
Ball Park Jumbo Franks (1 lb.)	2.45	1.99	2.49	2.39	2.57	2.89	2.46
Oscar Mayer Sliced Bologna (12 oz.)	1.19	1.61	1.69	1.59	1.57	1.49	1.57
Oscar Mayer Sliced Bacon (1 lb.)	2.19	2.89	2.79	3.19	2.79	2.88	2.59
Local Brand Chicken Cutlets (price per lb.)	4.59	4.29	4.69	4.98	4.39	3.69	2.99
Jimmy Dean Sausage (12 oz.)	2.19	2.19	2.29	2.29	1.69	1.99	2.29
Chicken of the Sea Chunk Light Tuna (6 1/8 oz.)	.73	.78	.89	.49	.71	.65	.65
A-1 Spaghetti (16 oz.)	1.09	1.03	1.05	.97	1.05	.99	.93
Ragu Mushroom Sauce (14 oz.)	1.45	1.29	1.39	1.29	1.39	1.25	1.35
Prego Spaghetti Sauce w/Mushrooms (14 oz.)	1.45	1.39	1.29	1.25	1.35	1.35*	1.27
Kraft American Singles (16 oz.)	3.65	2.79	3.89	3.69	3.77	2.99	3.55
Whole Milk (Private Label, 1 gal.)	2.61	2.65	2.63	2.29	2.55	2.51	2.33
Parkay Margarine (Stick, 1 lb.)	.99	.87	.79	.59	.85	.69	.89
Butter (Private Label, 1 lb.)	2.39	2.59	2.09	2.07	2.49	2.29	2.44
Land o' Lakes Butter (light salt, 1 lb.)	2.65	1.99	2.45	1.89	2.45	1.99	2.30
Eggs (Private Label, Lg., White, 1 dozen)	1.89	.89	2.19	.99	1.91	1.68	1.75
Minute Maid Orange Juice (Frozen, 12 oz.)	2.09	1.79	1.79	1.79	1.99	1.79	1.79
Green Giant Frozen Peas (16 oz.)	1.71*	1.71*	1.49	1.49	1.99	1.79	1.29
Stouffer's Lean Cuisine Glazed Chicken	3.09	2.99	2.99	2.97	2.99	2.89	2.94
Green Giant Canned Green Beans (14.5 oz.)	.89*	.69	.65	.53	.89	.68	.59
Birds Eye Frozen Peas (16 oz.)	1.12*	.85	1.19	.79	1.19	1.37	1.57
Jeno's Cheese Pizza (Frozen, 7.4 oz.)	1.29	1.09	1.45	.79	1.24*	1.37	1.44
Campbell's Tomato Soup (10 3/4 oz.)	.40	.40	.39	.39	.52	.44	.44
Skippy Peanut Butter (Creamy, 18 oz.)	2.89	1.99	2.19	2.09	2.55	2.09	2.47
Welch's Grape Jelly (32 oz.)	2.15	2.15	2.09	1.97	1.99	2.06	2.05
Hellmann's Mayonnaise (1 qt.)	2.39	2.39	2.39	2.33	2.39	2.39	2.36
Heinz Ketchup (14 oz.)	1.09	.99	.99	.84	.89	.89	.83
Tide Ultra Powder (42 oz.)	4.21*	3.98	4.39	3.89	4.35	4.36	4.31
Bounty Towels (Lg. roll, 60 sq. ft.)	1.09	.99	.99	.79	.79	.89	.79
Saran Wrap (100 sq. ft.)	2.75	2.89	2.79	2.39	1.79	1.79	2.79
Boyardee Meat Balls (24 oz.)	2.92	2.99	2.99	2.99	2.94*	2.99	2.73
Doritos Nacho Cheese Corn Chips (15 oz.)	2.73*	2.99	1.99	2.69	2.99	2.84	2.85
Crest Toothpaste (Gel, 6.4 oz. tube)	2.35	2.19	2.69	2.09	1.69	2.19	2.19
Nabisco Oreos (20 oz.)	3.19	3.19	3.19	2.69	3.15	2.99	2.99
Pepsi (2 liter)	1.29	1.29	1.19	1.19	.99	1.19	1.29
Coke (2 liter)	1.29	1.29	1.19	1.09	1.29	1.19	1.29
Diet Pepsi (2 liter)	1.29	1.29	1.19	1.19	.99	1.19	1.29
Diet Coke (2 liter)	1.29	1.29	1.19	1.09	1.29	1.19	1.29
Maxwell House Coffee (reg. grind, 13 oz.)	2.15	2.39	1.79	1.95	1.99	2.19	2.19
Lipton Tea Bags (100 ct.)	3.59	3.39	2.99	2.89	3.39	3.19	3.22
Sugar (5 lb. granulated)	1.79	1.79	1.79	1.75	1.79	1.79	1.79
Ground Chuck (USDA choice, 1 lb.)	2.19	2.19	3.59	2.08	1.99	2.69	2.99
Borden Shave Cream (11 oz.)	1.45	1.19	1.29	1.27	1.15	1.29	1.27
TOTAL (18 Items)	$93.48	$89.45	$92.84	$86.24	$90.63	$88.67	$87.50

* Item not available. Price based on average of other stores in area.

Like many brands, some supermarkets are living off past reputations

With prices this chaotic, what is the impact of the Sunday roto, the coupon supplements and freestanding inserts? As a consumer, if the deals don't run at the same time, should I save my coupons for the deals? Should I do all my coupon shopping at the lowest-priced store and cherry pick the others?

Is it too late for marketers to regain control of brand marketing? Can they ever get back to lower prices on anything like a regular basis, with fewer and lower deal offerings? Should we take the time to re-examine the entire marketing system? Perhaps the clubs may force the issue.

By Laurie Petersen

Nine of 10 shoppers hit the store with a specific strategy for saving money. It's not just because of the recession. Marketers and retailers have trained them to do it.

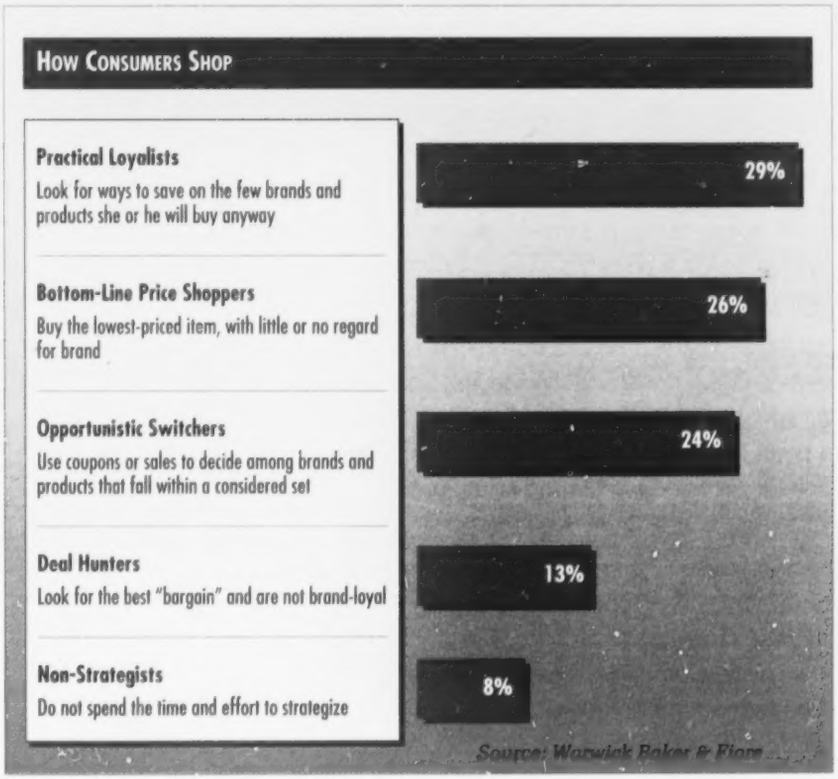
THE STRATEGIC SHOPPER

Adam Morris is a college student sharing his first apartment and living on a budget. But he likes to eat meat. So he's come to the Vitale Foodtown in Hoboken, N.J. this Sunday afternoon armed with the weekly sale circular. Blocking cart traffic in the narrow aisles, he stops to read the details of what's a bargain before making his selections.

Morris already has several items in his cart, including a vacuum-packed block of Chock Full o' Nuts coffee, a head of fresh broccoli and a pound of Land o' Lakes soft margarine. He'll save an extra $1.30 on these already-marked-down items by using the manufacturers' coupons printed in the store circular. His choice of brand for these commodity products is always dictated by what's on sale.

Morris also has stocked up on Foodtown private-label bottled water, frozen vegetables, spaghetti, cheddar cheese and cold cuts. The taste, he says, is the same or better than higher-priced brand names.

Morris acquired his habits from a former girlfriend, who used to call him crazy for throwing away the weekly sale circulars for the largest supermarket in-town. He estimates that he saves about $15 a month using coupons, double that if he figures in his bargain-hunting. The money comes in handy for nights out at a local club or movie.


How Consumers Shop
Practical Loyalists
Look for ways to save on the few brands and products she or he will buy anyway
29%
Bottom-Line Price Shoppers
Buy the lowest-priced item, with little or no regard for brand
26%
Opportunistic Switchers
Use coupons or sales to decide among brands and products that fall within a considered set
24%
Deal Hunters
Look for the best "bargain" and are not brand-loyal
13%
Non-Strategists
Do not spend the time and effort to strategize
8%
Source: Warwick Baker & Fiore

Morris is a classic "Opportunistic Switcher," using coupons or sales to decide among brands and products.

A national poll recently conducted for *ADWEEK*'s *MARKETING WEEK* by New York advertising agency Warwick Baker & Fiore found that nine out of 10 shoppers go

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SUPERMARKET BUSINESS

NONFOODSBUSINESS
INSIGHTS FOR MANAGEMENT AND THE GM/HBA SPECIALIST

THIRD ANNUAL HBA OPERATIONS REVIEW

BY DAVID LITWAK AND NANCY MALINE

There was a time, albeit long ago, when supermarkets were loathed by other retailers as "brash upstarts" muscling their way into the health and beauty aids business.

Long since established as powerful HBA distributors controlling 35% to 50% of most departmental categories, supers today are the reigning "champs," warily eyeing the new breed of challengers including mass merchants, discount drug chains and clubs.

Despite those threats, supermarket HBA performance last year, while not spectacular, was certainly satisfying given the economic and competitive climate.

HBA sales climbed to a new high of $11.6 billion last year, a 5.3% increase over 1990's $11 billion performance. Under the circumstances, that's a healthy increase, even though less than the 8.2% hike achieved in 1990. Last year's improvement was in line with the annualized growth pattern of the years between 1985 and 1990.

Most operators (85%) enjoyed increased sales in the category, with the average reported increase amounting to 5.1%. Of the remaining retailers,

With supermarkets squeezed by consumer belt-tightening and marauding mass merchants and discounters, last year's HBA sales growth was nothing to sneeze at.

13% saw no real change in their HBA sales, and only a meager 2% reported that their sales were lower than in 1990.

Average weekly sales of supermarket HBA sections maintained a steady rate of increase in 1991, rising to $7,250 from $6,879 in 1990, a gain of $371 a week. There was a fairly even distribution of weekly sales figures among different operations. Average weekly sales between $6,000 and $6,500 were reported by 25% of respondents, while 31% had average sales ranging from $6,500-$7,000. Twenty-seven percent saw their weekly sales rise to the $7,000 to $7,500 range, and 14% enjoyed sales of better than $7,500 in an average week. The remaining 3% posted HBA sales of less than $6,000 per week.

What's moving?

The HBA department's share of total supermarket sales also increased in 1991, riding up from 4.9% of sales in 1990 to 5.4% last year.

A significant increase in the fortunes of many operators came in the form of higher gross margins. The average departmental gross rose to 29.9% in 1991, which brought in more profit dollars than the 27.3% average margin of just a year before.

Although they have lost a full percentage point of their previous share, OTC drugs and remedies still account for nearly a quarter (23.4%) of the HBA section's sales. The second largest HBA category, hair care, also receded somewhat, dropping to a 13.5% share from 15.7% in 1990.

Moving in the opposite direction from OTCs and hair care were feminine hygiene products, which rose from 8.8% of departmental sales to 10.4% during 1991. Cosmetics and nail care products also advanced to a new high, 7.8%.

Retailers actually doubled the distribution rate of diet aids last year, due in good measure to strong promotional efforts by some of the major vendors in the category. Sales moved to a 3.2% share of the department's

PROFITS AND PRODUCTS

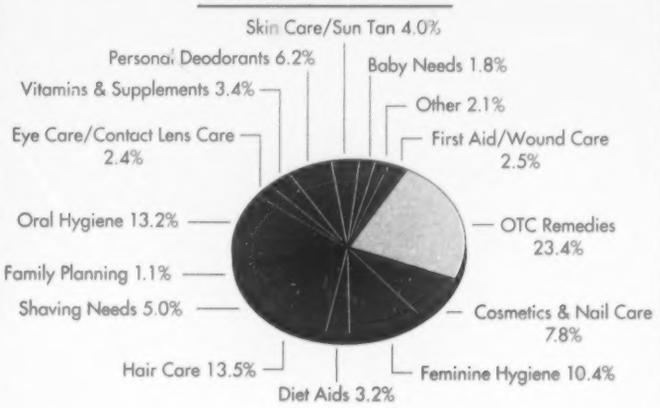
In 1991, the HBA department rebounded from the previous year's distribution rate decline, improving to 5.4% of total store sales from 4.9%. The departmental profit margin continued its upward climb, rising to 29.9% last year from 27.3% in 1990.

Although their share of HBA sales was slightly lower last year than it was in 1990, OTC remedies still represented nearly a quarter of the department's volume, at 23.4%. Sales in about half the categories were either flat or down slightly in 1991, with examples of the latter including hair care (down by 2.2%) and vitamins (off by 1.7%) for the year. Categories posting gains were feminine hygiene, eye care, cosmetics and contraceptives.

Diet aids were big gainers once again, with sales distribution more than doubling to 3.2% from 1.5% in 1990. Teeth whitening products may be a potential hot button within the oral hygiene category, if consumers are willing to go for their relatively high price points.

Share of Total Store Sales		Gross Margin	
Mean: **5.4%**	Median: **5.3%**	Mean **29.9%**	Median: **27.7%**
By Store Format		Less than 20%	**8%**
Conventional	**4.0%**	20-24	**26**
Superstore	**5.3**	25-29	**32**
Super warehouse store	**4.9**	30-34	**23**
		35 or more	**11**
		Total	**100%**

Distribution of HBA Sales



HBA products most frequently added or given increased space		What HBA products will be the hottest of the 1990s?	
-Diet Aids	-Teeth Whiteners	-Diet Aids	-Oral Hygiene

SPACE AND LABOR

With space devoted to the HBA categories up last year, the average department employed one additional part-time employee. This lowered the average weekly sales per linear foot by $1.27, and sales per employee by $288. Although labor increased, the added costs were offset by the fact that fewer operators used service merchandisers (32% in 1991, compared to 41% in 1990).

How Much for Labor?
(Labor as percent of HBA sales)

Mean: **4.0%** Median: **4.5%**

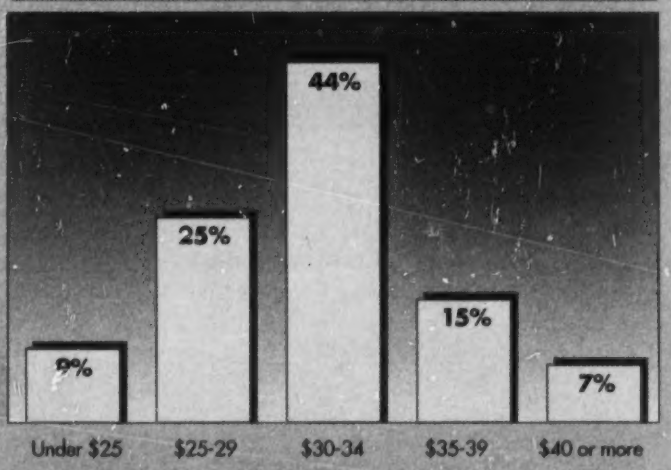
Percent of companies using service merchandisers in at least some of their units: **32%**

Number of Employees

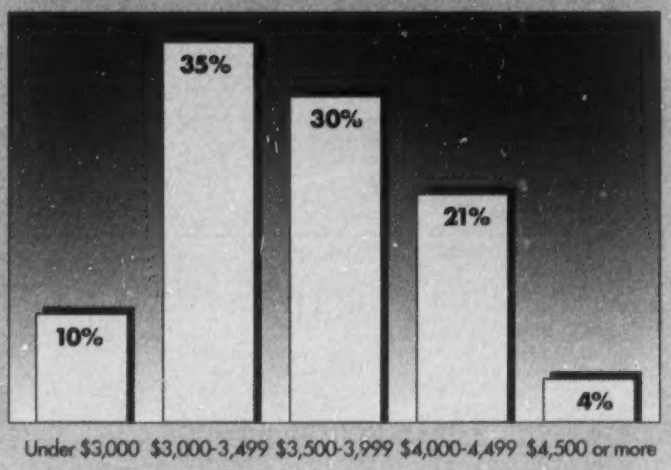
Full-time	1.2
Part-time	2.2
Full-Time Equivalent	2.3

Size of Department		Size By Store Format	
Mean:	**228 gondola feet**	Conventional	**173 ft.**
Median:	**241 gondola feet**	Superstore	**315 ft.**
		Super warehouse	**308 ft.**

Average weekly sales per linear foot Mean: **$31.80**



Average weekly sales per employee Mean: **$3,152**



sales from 1.5% between 1990 and 1991.

Retailers predict that the category will continue to be one of the rising stars of the HBA department throughout 1992, given ongoing consumer interest and the introduction of new products. This category has even spawned new products in the frozen foods and grocery sections.

Along with diet aids, operators see continued strong movement of oral hygiene products over the balance of the year. This is due mostly to the introduction of a plethora of teeth-whitening products. The category's major manufacturers have begun marketing the products through supermarkets, whereas many of the items were previously made available only through television offers.

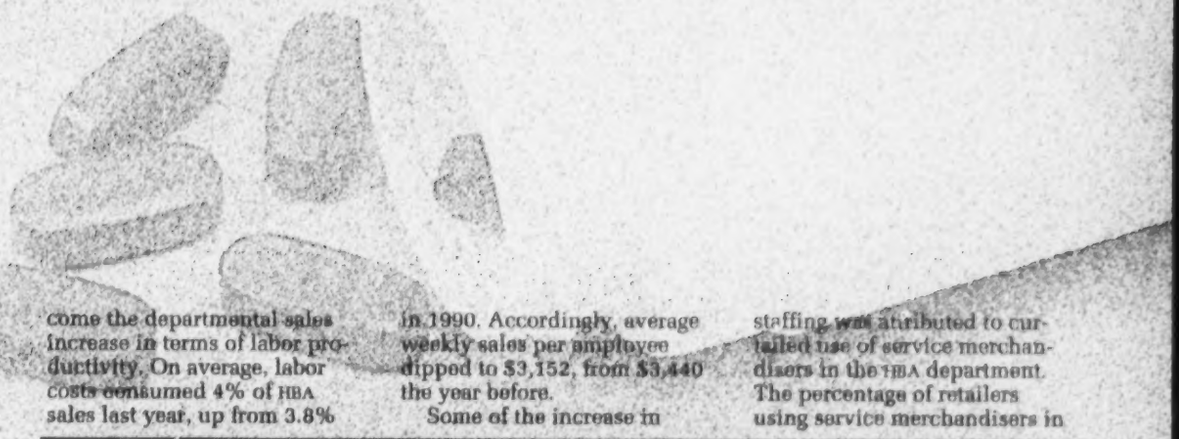
Fad or fact?

It remains to be seen whether the products are fads, or if they will become a solid part of the category. Some will undoubtedly build sales at the expense of standard toothpastes and oral rinses, while others will be bought to complement current toothpastes.

If they are bought to be used in addition to existing toothpastes and rinses, category sales will increase. If they are substituted for currently favored products, sales will still increase because of their generally higher price points, but unit volume in the category would remain constant over time.

Diet aids and the new breed of oral hygiene products are causing such a stir that retailers predict that they will be the two hottest categories of the '90s. Thus it would appear that vanity is leading the way

THIRD ANNUAL
HBA
OPERATIONS REVIEW



to innovation in the HBA section, with the two product groups generating more sales excitment than even the latest crop of Rx-to-OTC drug conversions.

Space and labor

The HBA section continues to be the scene of substantial product introduction activity, dominated by such categories as hair care, oral hygiene, nail care and cosmetics. This is complicated further by burgeoning line extensions throughout and the Rx-to-OTC crossovers—in all, a merchandiser's nightmare.

To accommodate the proliferation, operators might be tempted to increase the space allotted to the department. However, it appears that most have not chosen that route, but rather have attempted to be increasingly selective.

The best evidence of this is the very slight increase in the amount of space allocated to the department as a whole. In 1990, the average size of a supermarket HBA section was 208 gondola feet, and that increased by only 20 feet in 1991. Average department sizes by format last year were 173 feet in conventional stores, and 315 feet in superstores.

But as modest as the space increase was, it still outpaced the year's sales growth, resulting in a slight downturn in the department's space productivity. Average weekly sales per linear foot in the HBA department dropped to $31.80 last year from $33.07 in 1990.

The number of employees needed to staff the HBA section increased slightly to the equivalent of 2.3 full time workers, up from the average of two per department in 1990. The increase was reflected in the addition of an average of one part-timer per store to help man the department.

As with the space situation, the modest increase in manpower was enough to overcome the departmental sales increase in terms of labor productivity. On average, labor costs consumed 4% of HBA sales last year, up from 3.8% in 1990. Accordingly, average weekly sales per employee dipped to $3,152, from $3,440 the year before.

Some of the increase in staffing was attributed to curtailed use of service merchandisers in the HBA department. The percentage of retailers using service merchandisers in

It seems that the HBA department has become as much a part of the supermarket landscape as the bread aisle.

HBA sales increased by 5.3% to $11.6 billion last year. Eighty-five percent of operators responding to the survey reported departmental sales gains, with the improvement averaging 5.1%. Only 2% said their HBA sales decreased from 1990 to 1991.

The average supermarket HBA section rang up $7,250 per week last year, an increase of 5% ($371 a week) over 1990 results. Weekly departmental sales of $7,000 or better were achieved by 41% of the companies responding.

Pharmacies, included in only about 17% of supermarkets in 1991, again generated significant sales. The industry's 5,113 instore pharmacies did an average of $13,276 in 1991, an 11.4% increase over the prior year's total.

HBA, Rx Penetration

Number of stores with HBA sections	30,800
Percent of supermarkets	100%
Number of stores with pharmacies	5,113
Percent of supermarkets with pharmacies	16.6%

Pharmacy Sales

Total supermarket pharmacy sales: **$3.53 Billion**

Average weekly sales per pharmacy: **$13,276**

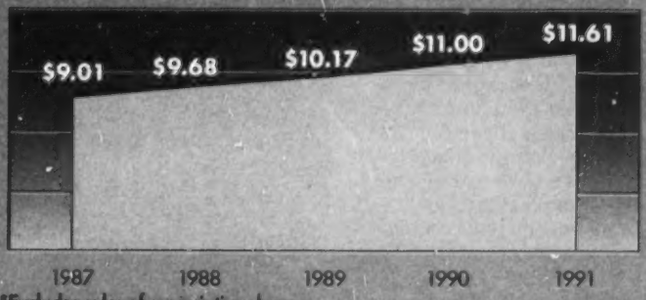
Average Weekly Sales of HBA

Mean: **$7,250** Median: **$7,018**

Average Weekly Sales:

Less than $6,000	3%
$6,001-$6,500	25
$6,501-$7,000	31
$7,001-$7,500	27
$7,501 or more	14
Total	100%

Annual Sales* (billions)



*Excludes sales of prescription drugs

Changes in Dollar Sales (1991 vs 1990)

Average reported increase 5.1%

at least some of their stores declined last year to just 32%.

Despite all manners of buying and merchandising, the most potent stimulant for HBA sales is the marriage of the department with an instore pharmacy.

The nation's supermarkets added 229 instore pharmacies last year, with the total growing to 5,113 from 4,884 in 1990. Pharmacies now operate in 16.6% of supermarkets across the country.

More importantly, pharmacies averaged an annualized sales gain of 16.5%, triple the growth of average sales in HBA sections not mated with Rx departments. And supermarket pharmacies dispensed $3.53 billion in prescription drugs in 1991, compared to $3.03 billion in 1990.

Sales were obviously boosted by the addition of more than 200 departments during the year, but also by the upward spiral of prescription drug prices. Additionally, identical-store pharmacy sales continued to grow, as consumer confidence in supermarket pharmacies permits business to build gradually.

Sales dispensers

In general, the development of a solid pharmacy business, complete with back files for prescriptions and patient profiles, takes several years. Many stores that introduced pharmacies a few years ago are now reaching that level of development, as they continue to pull in new business while servicing existing customers.

Average weekly sales in supermarket pharmacies reached $13,276 in 1991, an 11.4% increase from the 1990 weekly average of $11,917.

Pharmacies and HBA sections definitely complement one another. Seventy-two percent of retailers with pharmacies in at least some of their stores say that HBA sales are higher in those units than in stores without pharmacies.

Of course, there are supermarkets and superstores whose dimensions and/or merchandising thrust enable them to stock and sell HBA products effectively, without the benefits of pharmacy. Nevertheless, retailers with pharmacies prefer to maximize synergy by keeping them close to HBA departments.

In 71.4% of stores with pharmacies, the prescription departments are fully adjacent to the HBA section, while in another 25.6%, they are at least partially adjacent. Only in the remaining 3% of the stores are the two sections reported to be totally separated.

Print power

When it comes to promoting the HBA department, print media remain the vehicles of choice. More than 90 percent of responding retailers use store circulars, newspapers and point-of purchase promotions to trumpet their HBA selections.

Far fewer operators bring their HBA message to the airwaves, with only 35% using television and 37% employing radio spots. Point-of-purchase promotional messages via recorded instore "radio" programs and video set-ups are used by 24% of responding retailers.

All in all, the HBA department performance last year could be described as steady—nothing dramatic, nothing spectacular.

While the data suggests that space and labor have begun to outpace additional sales, these are not extreme changes, and the results may well improve this year, depending upon economic and competitive forces.

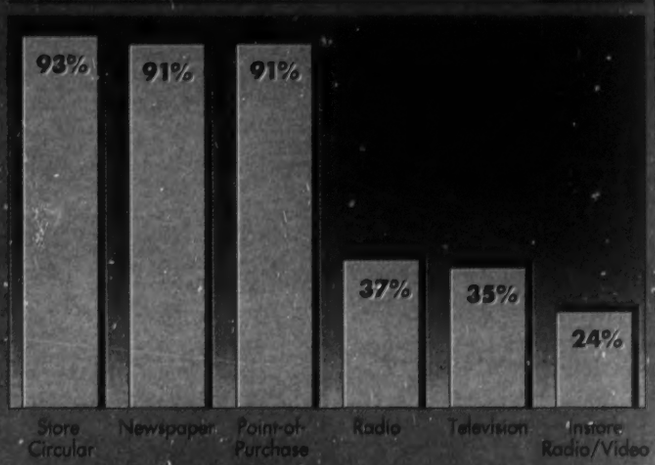
The absence of major changes in the operation and performance results of the department underscores the fact that it has become a staple section, well entrenched in the supermarket. ■

Location of HBA Section
(In stores with pharmacies)

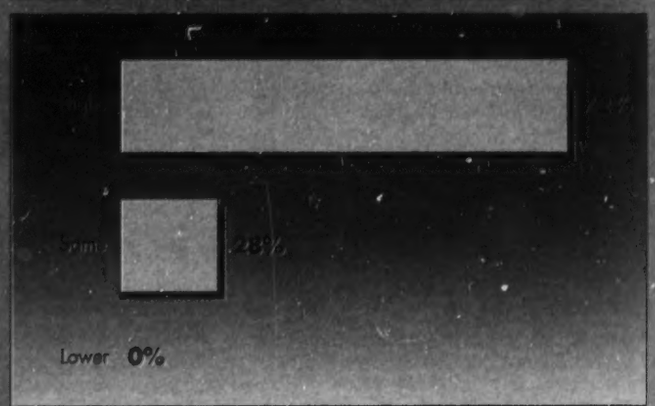
Adjacent to pharmacy	71.4%
Partially adjacent	25.6
Away from pharmacy	3.0
Total	100%

Home Care Section
(percent of companies having a separate section)

None	79%
In some stores	21
Total	100%



How do sales of HBA in your stores with pharmacies compare with stores without pharmacies?



STRATEGIC SHOPPER

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to the store for frequently purchased items armed with a specific shopping strategy for saving money.

And they are paying very careful attention to just how much they do save. On average, consumers reported saving $347 per year with coupons and sales. The 24% in the most sophisticated shopping group saved up to $506 in 1991. On average, consumers believe they save $233 per year using coupons alone.

"Two years ago I wouldn't have asked this question. People wouldn't have known how much they saved," says Dr. Susan Small-Weil, executive vice president and chief planning officer for Warwick Baker & Fiore. "But they are paying attention. They do know."

Yet half of consumers believe they could still try harder and save even more. At the same time, they believe there is more they can take advantage of.

What's more, this shopping behavior crosses age groups and sexes. It's not just the homebound who make the effort to find bargains. Men, consumers aged 35 to 54, college graduates and working women are the most likely to believe they save money using coupons and sales.

The recession is only part of the reason for the turn toward heightened price-consciousness, according to Small-Weil. She says manufacturers have so cluttered the marketplace with promotions and offers that it is easier for the consumer to act on these than to ignore them. Even if they find it more time-consuming, they feel bound to participate rather than lose money.

Redemption figures bear this out. Manufacturers issued a record 314 billion coupons last year, a 12% jump from 1990, according to CMS Inc. in Winston-Salem, N.C. Some 7.7 billion were redeemed in 1991, a 5% increase. NCH Promotional Services reports that consumers saved a record $4 billion last year, a 14% increase from 1990.

"Between retail competition and manufacturer coupons, there's an overwhelming amount happening in the marketplace. People have been forced to make shopping like a chore and add a level of intellectual manipulation and machination to participate," she adds.

The Warwick Baker & Fiore research identified five distinct shopping methods. Some 92% of consumers have arrived at a consistent and apparent shopping strategy to guide them through the store. The recession may have been impetus for some of the behavior, but now that these habits are here, they are not going to pass if the economy improves, Small-Weil believes.

There are the people who only want what they want. They tend to be brand-loyal. They won't go out of their way to get the item at a lower price. But they're also pragmatic. If they run across a $1 coupon for a shampoo they buy all the time, they are going to use the coupon. They tend to skew over age 55.

"It's gotten to the point where it takes more time to get rid of things like a freestanding insert than it takes to go through it," says Small-Weil. "You pick up the paper and they fall out. In the process of getting rid of them, you can't ignore the coupons. It's gotten easier to use them than to throw them out."

Using this strategy, these shoppers believe they saved $325 using coupons and sales. They view it as a way to do the smart thing and get the best of both worlds—what they want at a good price.

These shoppers appear to derive satisfaction out of knowing what they want and sticking with it. The extra bonus of saving money with just a little effort makes them feel smart.

These people buy the lowest-priced item with little or no regard for brand. The bot-

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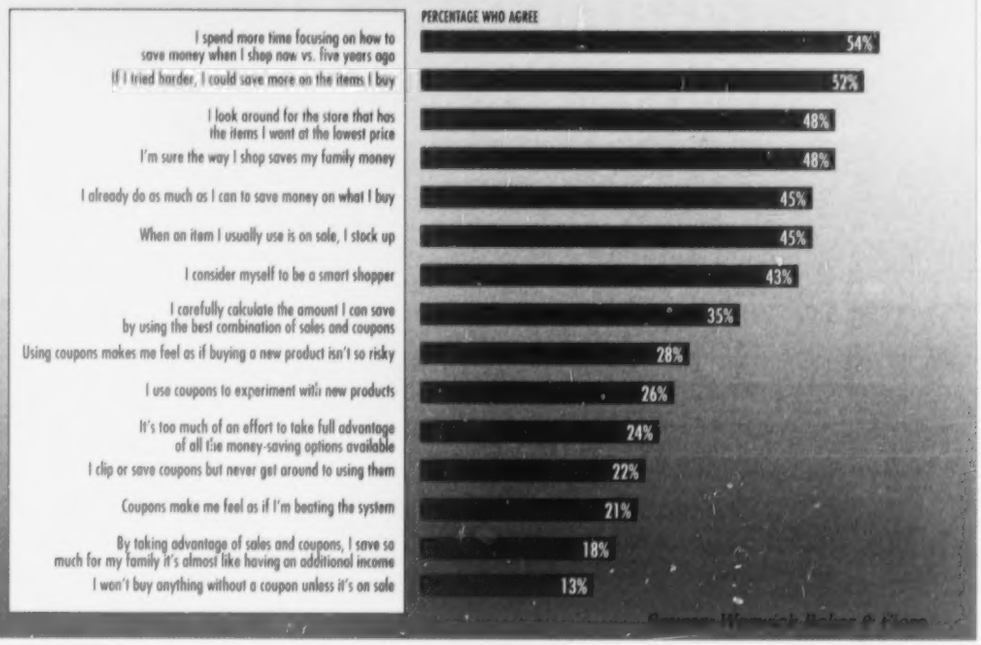
SHOPPING STRATEGIES


PERCENTAGE WHO AGREE
I spend more time focusing on how to save money when I shop now vs. five years ago
54%
If I tried harder, I could save more on the items I buy
52%
I look around for the store that has the items I want at the lowest price
48%
I'm sure the way I shop saves my family money
48%
I already do as much as I can to save money on what I buy
45%
When an item I usually use is on sale, I stock up
45%
I consider myself to be a smart shopper
43%
I carefully calculate the amount I can save by using the best combination of sales and coupons
35%
Using coupons makes me feel as if buying a new product isn't so risky
28%
I use coupons to experiment with new products
26%
It's too much of an effort to take full advantage of all the money-saving options available
24%
I clip or save coupons but never get around to using them
22%
Coupons make me feel as if I'm beating the system
21%
By taking advantage of sales and coupons, I save so much for my family it's almost like having an additional income
18%
I won't buy anything without a coupon unless it's on sale
13%

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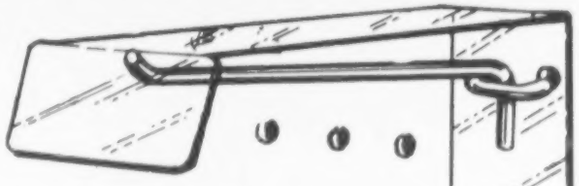

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STRATEGIC SHOPPER

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tom-line shoppers find the lowest price by store shopping. They are the most likely to believe their actions are almost like having an additional income.

Bottom-line shoppers are most dominant in households with children. In families with children, the perception of disposable income is lower and loyalty to brand names may be sacrificed. Also, as new products enter the household through children, parents tend to be more flexible about what types of things they will try.

However, the price-oriented shopper saves far less than average when compared with other groups who take advantage of coupons and sales ($260 versus $347). They appear to be penny-wise and pound-foolish. They use price alone without the extra effort of planning and strategy to try to get the best deal.

There are the folks like Adam Morris, who let coupons and sales make the decision for them among several brands in their considered set. They are flexible among brands they've come to trust, and will go with the best deal.

These shoppers stand in the aisle and mentally calculate the best deal that week given the coupons they have in hand. They have the greatest emotional investment in the process. They score highest on all items that reflect pride and accomplishment in their shopping strategies. It's almost as if their self-image is reflected in this behavior.

Switchers tend to have some college education (30% versus 24% for the total pool). They are also more likely to try new products.

Consumers who use this strategy report saving the second-highest amount, $452, of all the groups. This represents the best of both worlds—brands that they are satisfied with plus the flexibility to shift within a group to take advantage of short-term opportunities.

This is the group among which marketers fight their short-term losing battle. Dealing will get them to buy your product, but it won't get preference or loyalty.

Compliment a deal hunter on a new pair of shoes and she's apt to tell you what she paid for them. The deal hunter views shopping as a game. What's purchased is secondary.

Members of this group cut across all demographic segments and are out to "beat the system" without any loyalty. They get their kicks from getting good deals. They don't care what it is they buy.

Using this strategy, these consumers saved the most of any other group—$506. But saving is their driving force.

Non-strategists just shop.They don't actively look for bargains because they're not organized enough to plan in advance, Small-Weil suspects. She should know because this is her category. The typical non-strategist, however, is a man.

Since they don't go out of their way to look for coupons or sales, non-strategists saved only $134, the least of any group in the survey.

"I used to clip coupons and then they'd expire or I wouldn't have them when I went shopping," says Small-Weil. "It was more frustrating and annoying not to get it right. So I just stopped altogether."

TRY A SHARPER PRICING STRATEGY FOR EARLY 'SHORT SEASON' FRUIT

Early season fruits, such as apricots, can pose a pricing dilemma.

The first shipments of fruit, very small in volume, and very expensive (maybe $30 or more per carton), call for per pound pricing (with normal markups) of $1.99 to $2.19. But at that price as much as 25% of the less than optimum quality early fruit will end up in the dumpster, so the decision is often made to price it at $2.49 or even $2.95. At that price, 50% of the early, expensive apricots will probably end up as garbage.

With that kind of loss on the books, the buyer or merchandiser will decide not to buy any more until prices come down. With no action in the marketplace, the shipper then lowers his price in order to get things moving again.

But because of the early losses, the produce buyer holds prices at too high a level (maybe $1.29 or more on fruit that was delivered at 50¢ per pound or less) in order to make back the loss. This discourages volume movement and the commodity never regains momentum.

There is an answer, however. By "loss leader" pricing at the start of the season—say, $1.09 or even 99¢ per pound—on that very limited early volume, the product will move. When grower/shipper prices drop as volume increases, that early retail pricing can hold for the season.

In brief, instead of throwing away 50% of that early volume and taking a big loss on it, sell it all (or at least 90% of it) and take a small loss. This establishes a price for the commodity that your customers can afford to pay throughout the season. Once the product is back in business as a viable commodity, consumer acceptance and demand will soar and every link in the production/distribution chain will benefit.

To make this concept work, cooperation between grower/shippers and buyer/ merchandisers to insure a smooth flow of product is a must.

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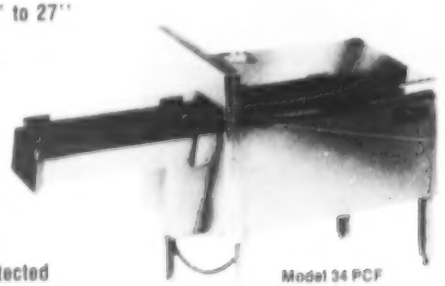

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